

LOS ANGELES UNIFIED SCHOOL DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

Chapter 961, Statutes of 1975,
and Chapter 1213, Statutes of 1991

July 1, 1999, through June 30, 2001



STEVE WESTLY
California State Controller

November 2003



STEVE WESTLY
California State Controller

November 21, 2003

Roy Romer, Superintendent
Los Angeles Unified School District
333 South Beaudry Avenue, 24th Floor
Los Angeles, CA 90017

Dear Mr. Romer:

The State Controller's Office (SCO) has completed an audit of the claims filed by the Los Angeles Unified School District for costs of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 1999, through June 30, 2001.

The district claimed \$5,083,438 for the mandated program. Our audit disclosed that \$704,953 is allowable and \$4,378,485 is unallowable. The unallowable costs occurred because the district did not provide documentation to support labor hours and supplies claimed. The district was paid \$5,083,438. The amount paid in excess of allowable costs claimed, totaling \$4,378,485, should be returned to the State.

The SCO has established an informal audit review process to resolve a dispute of facts. The auditee should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report. The request and supporting documentation should be submitted to: Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

WALTER BARNES
Chief Deputy Controller, Finance

WB:ams/jj

cc: (see page 2)

cc: Kenneth C. Gotsch
Chief Financial Officer
Los Angeles Unified School District
Richard Knott, Controller
Los Angeles Unified School District
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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by the Los Angeles Unified School District for costs of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 1999, through June 30, 2001. The last day of fieldwork was February 10, 2003.

The district claimed \$5,083,438 for the mandated program. The audit disclosed that \$704,953 is allowable and \$4,378,485 is unallowable. The unallowable costs occurred primarily because the district did not provide documentation to support labor hours and supplies claimed. The district was paid \$5,083,438. The amount paid in excess of allowable costs claimed, totaling \$4,378,485, should be returned to the State.

Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere of public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating to collective bargaining. On July 17, 1978, the Board of Control ruled that the Rodda Act imposed a state mandate upon school districts reimbursable under *Government Code* Section 17561.

In 1991, the State enacted Chapter 1213, Statutes of 1991, which requires that school districts publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding. On August 20, 1998, the Commission on State Mandates (formerly the Board of Control) ruled that this legislation also imposed a state mandate upon school districts reimbursable under *Government Code* Section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred. The seven components are as follows:

- G1 – Determining bargaining units and exclusive representation
- G2 – Election of unit representation
- G3 – Cost of negotiations
- G4 – Impasse proceedings
- G5 – Collective bargaining agreement disclosure
- G6 – Contract administration
- G7 – Unfair labor practice charges

Parameters and Guidelines, adopted by the Commission on State Mandates, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 1999, through June 30, 2001.

The auditors performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's management controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are shown in the Summary of Program Costs (Schedule 1) and described in the Findings and Recommendations section of this report.

For the audit period, the Los Angeles Unified School District claimed \$5,083,438 for costs of the legislatively mandated Collective Bargaining Program. The audit disclosed that \$704,953 is allowable and \$4,378,485 is unallowable.

For fiscal year (FY) 1999-2000, the district was paid \$2,579,650 by the State. The audit disclosed that \$281,214 is allowable. The amount paid in excess of allowable costs claimed, totaling \$2,298,436, should be returned to the State.

For FY 2000-01, the district was paid \$2,503,788 by the State. The audit disclosed that \$423,739 is allowable. The amount paid in excess of allowable costs claimed, totaling \$2,080,049, should be returned to the State.

Views of Responsible Officials

The SCO issued a draft report on May 14, 2003. Joseph Zeronian, then the Chief Financial Officer, responded by letter dated June 3, 2003, disagreeing with the audit results. The district's response is included in this final audit report as the attachment.

Restricted Use

This report is solely for the information and use of the Los Angeles Unified School District, the Los Angeles County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2001

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference ¹</u>
<u>July 1, 1999, through June 30, 2000</u>				
Components activities G1 through G3:				
Salaries and benefits	\$ 364,696	\$ —	\$ (364,696)	Finding 1
Materials and supplies	105,758	—	(105,758)	Finding 2
Contracted services	<u>189,182</u>	<u>173,134</u>	<u>(16,048)</u>	Finding 3
Subtotals	659,636	173,134	(486,502)	
Less adjusted base-year direct costs	<u>(521,470)</u>	<u>(521,470)</u>	<u>—</u>	
Subtotals	138,166	(348,336)	(486,502)	
Adjustment to reduce balance to zero	<u>—</u>	<u>348,336</u>	<u>348,336</u>	
Increased direct costs, G1 through G3	<u>138,166</u>	<u>—</u>	<u>(138,166)</u>	
Components activities G4 through G7:				
Salaries and benefits	2,160,163	111,884	(2,048,279)	Finding 1
Materials and supplies	—	—	—	
Contracted services	<u>177,131</u>	<u>163,948</u>	<u>(13,183)</u>	Finding 3
Increased direct costs, G4 through G7	<u>2,337,294</u>	<u>275,832</u>	<u>(2,061,462)</u>	
Total increased direct costs, G1 through G7	2,475,460	275,832	(2,199,628)	
Indirect costs	<u>104,190</u>	<u>5,382</u>	<u>(98,808)</u>	Finding 4
Total costs	<u>\$ 2,579,650</u>	281,214	<u>\$(2,298,436)</u>	
Less amount paid by the State		<u>(2,579,650)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(2,298,436)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Components activities G1 through G3:				
Salaries and benefits	\$ 523,893	\$ 196,013	\$ (327,880)	Finding 1
Materials and supplies	48,136	—	(48,136)	Finding 2
Contracted services	<u>293,061</u>	<u>292,523</u>	<u>(538)</u>	Finding 3
Subtotals	865,090	488,536	(376,554)	
Less adjusted base-year direct costs	<u>(542,875)</u>	<u>(542,875)</u>	<u>—</u>	
Subtotals	322,215	(54,339)	(376,554)	
Adjustment to reduce balance to zero	<u>—</u>	<u>54,339</u>	<u>54,339</u>	
Increased direct costs, G1 through G3	<u>322,215</u>	<u>—</u>	<u>(322,215)</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2000, through June 30, 2001 (continued)</u>				
Components activities G4 through G7:				
Salaries and benefits	1,954,670	272,076	(1,682,594)	Finding 1
Materials and supplies	—	—	—	
Contracted services	<u>140,682</u>	<u>140,181</u>	<u>(501)</u>	Finding 3
Increased direct costs, G4 through G7	<u>2,095,352</u>	<u>412,257</u>	<u>(1,683,095)</u>	
Total increased direct costs, G1 through G7	2,417,567	412,257	(2,005,310)	
Indirect costs	<u>86,221</u>	<u>11,482</u>	<u>(74,739)</u>	Finding 4
Total costs	<u>\$ 2,503,788</u>	423,739	<u>\$(2,080,049)</u>	
Less amount paid by the State		<u>(2,503,788)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(2,080,049)</u>		
<u>Summary: July 1, 1999, through June 30, 2001</u>				
Total increased direct costs	\$ 4,893,027	\$ 688,089	\$(4,204,938)	
Indirect costs	<u>190,411</u>	<u>16,864</u>	<u>(173,547)</u>	
Total costs	<u>\$ 5,083,438</u>	704,953	<u>\$(4,378,485)</u>	
Less amount paid by the State		<u>(5,083,438)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(4,378,485)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported salaries and benefits

The district did not provide documentation to substantiate a significant portion of claimed salaries and benefits totaling \$4,423,449 for the period of July 1, 1999, through June 30, 2001, as follows:

- The district claimed \$4,520,307 (\$2,386,867 in FY 1999-2000 and \$2,133,440 in FY 2000-01) for time spent by the district's Office of Staff Relations (OSR) staff and for OSR-related staff for labor relation activities. The district did not provide support for \$4,296,137 in claimed costs (\$2,336,755 in FY 1999-2000 and \$1,959,382 in FY 2000-01).
- The district claimed \$7,006 (\$2,909 in FY 1999-2000 and \$4,097 in FY 2000-01) for costs of employees attending administrator meetings. The district did not provide support for \$6,846 (\$2,899 in FY 1999-2000 and \$3,947 in FY 2000-01) in claimed costs. The district provided employee sign-in sheets; however, the district did not provide documentation supporting that the meeting was for mandate-related activities.
- The district claimed \$124,191 (\$75,233 in FY 1999-2000 and \$48,958 in FY 2000-01) for principals meetings. The district did not provide support for \$120,466 in claimed costs (\$73,321 in FY 1999-2000 and \$47,145 in FY 2000-01). The activity related to principals attending monthly update meetings; however, informational updates during regularly scheduled staff meetings are not reimbursable under the program.
- The district claimed \$351,918 (\$59,850 in FY 1999-2000 and \$292,068 in FY 2000-01) in other mandate-related activities that it supported.

The district claimed costs of its OSR employees by estimating their time for FY 1999-2000 and FY 2000-01. The district was not able to provide documentation supporting the costs claimed. For FY 1999-2000, the district claimed between 95% and 100% of its OSR staff. For FY 2000-01, the district claimed between 22% and 100% of its OSR staff costs.

After filing the two claims, the district completed a time study on time spent by its OSR staff. The time study was performed for 34 of the district's 52 OSR staff for the period of October 2001 through March 2002. The district requested that the time study results be applied to the audit period.

The auditors raised various concerns regarding the time study's validity during October 2002, February 2003, and early April 2003. District staff did not address the auditors' concerns. Consequently, the auditors determined that the district's time study does not support costs claimed. The time study was determined to be invalid for the three reasons discussed below.

1. The district did not respond to the auditors' concerns as to the validity of the completed time study.

The time study was conducted for 34 of the district's 52 OSR staff for the six-month period of October 2001 through March 2002. The time study identified hours spent on mandated and non-mandated activities. Non-mandated activities included paid sick leave, vacation, and holidays. The time study was intended to identify the percentage of total paid time that sampled employees spent on mandate activities. However, employees were not consistent on how they recorded paid sick leave and vacation hours. Usually, paid vacation and sick leave hours were recorded as non-mandated activities. However, at times these hours were omitted from the calculation.

The time study included monthly time records of 34 staff for six months, totaling 204 monthly time records. However, eight monthly time records (one monthly time record for six employees and two monthly time records for one employee) were not submitted by OSR staff. The district did not provide any explanation for the missing time records.

Of the 196 monthly time records submitted by staff, 23 monthly time records recorded mandated hours during time the payroll records showed the employee was on paid vacation or sick leave for the entire day. Similarly, in some instances, mandate hours were recorded on the monthly time records, yet the employee was on paid vacation or sick leave for part of the time charged to the mandate. The district did not provide any explanation for these discrepancies. Additionally, one district employee turned in logs completed by another employee and, in three instances, an employee did not sign the time log.

2. The district did not project the time study results to the audit period.

On various occasions, the auditors requested that the district project the time study results to the audit period. Instead, the district provided the auditors with a spreadsheet that identifies the percentage of total paid time that sampled OSR employees spent on mandated activities during FY 2001-02. On the spreadsheet, the district compared the sampled employees from the time study to amounts claimed for those individuals during the audit period (22 in FY 1999-2000 totaling \$1,419,675 and 32 in FY 2000-01 totaling \$1,777,982). In some instances, the classifications of employees sampled during the time-study period were different during the audit period. No analysis was made for the costs of the OSR and OSR-related employees not sampled (\$967,192 in FY 1999-2000 and \$355,458 in FY 2000-01).

3. The district did not support the applicability of applying the result of the time study conducted in FY 2001-02 to the audit period of FY 1999-2000 and FY 2000-01.

The district did not substantiate that the level of effort spent by OSR staff during the time study period correlated to the level of effort spent by OSR staff during FY 1999-2000 and FY 2000-01. Consequently, the auditors are unable to determine whether the time study results can be reasonably projected to the audit period.

Parameters and Guidelines, Section G 3, states, “Show the costs of salaries and benefits for employer representatives participating in negotiations. . . . Indicate the cost of substitute for release time of exclusive bargaining unit representatives during negotiations. Give the job classification of the bargaining unit representative that required a substitute and dates the substitute worked.”

Parameters and Guidelines, Section G 6, states, “Personal development and informational programs, i.e., classes, conferences, seminars, workshops, and time spent by employees attending such meetings are not reimbursable.”

Parameters and Guidelines, Section H, states the claimant must support the level of costs claimed and that the claimant will only be reimbursed for the “increased costs” incurred.

Parameters and Guidelines, Section H 3, states, “Show the classification of employees involved, amount of time spent, and their hourly rate. . . .”

A summary of the unallowable costs is as follows:

	Fiscal Year		Total
	1999-2000	2000-01	
Salaries and benefits:			
Components G1 through G3	\$ (364,696)	\$ (327,880)	\$ (692,576)
Components G4 through G7	<u>(2,048,279)</u>	<u>(1,682,594)</u>	<u>(3,730,873)</u>
Totals	<u><u>\$(2,412,975)</u></u>	<u><u>\$(2,010,474)</u></u>	<u><u>\$(4,423,449)</u></u>

Recommendation

The district should develop and implement an adequate recording and reporting system to ensure that all claimed costs are eligible and properly supported.

District’s Response

The District disagrees with the calculation and the reason for the adjustment by the SCO audit staff. The District takes exception to the reasons given by the auditor for not validating the time study that was presented to them. The District addressed the auditors concerns with the presentation of a very detailed worksheet with notes and comments at the end of each worksheet. The SCO failed to act on the information presented. The District also requested to meet with the SCO concerning this time study analysis prepared by our consulting group. The analysis was compared with actual payroll data and was projected for comparison with the claimed amounts. **(See Attachment II – Time Study for details.)**

The District is in disagreement with the SCO with regard to the time spent training principals. At a principal meeting, the coordinator (OSR) provides contract training. The coordinator will review sections of the contract that are important. They also review sections of the contract that are calendar sensitive and remind principals that they must adhere to the contract. Any other questions that principals may have specific to their schools regarding the contract are also asked and answered at the meetings.

The District will not contest the \$6,846 if the documentation did not support mandate-related activities.

SCO's Comments

The fiscal impact of the finding and recommendation remains unchanged.

Time Study

The finding has been edited to address some of the district's comments.

The district did not: (1) respond to the SCO auditors' concerns as to the validity of the completed time study discussed in the finding; (2) project the time study results to the audit period; and (3) support the applicability of applying the result of the October 2001 through March 2002 time study conducted in FY 2000-01 to the audit period of FY 1999-2000 and FY 2000-01.

- Employees were not consistent in methods for recording paid sick leave and vacation hours in the time study. For 23 monthly time records, mandated hours were recorded on the time study during time the payroll records showed the employee was on paid vacation or sick leave for the entire day. Similarly, in some instances, mandate hours were recorded on the monthly time records, yet the employee was on paid vacation or sick leave for part of the time charged to the mandate. The district did not provide any explanation for these discrepancies.
- The district compared the costs of 34 of the 52 sampled employees from the time study to amounts claimed for those individuals (22 in FY 1999-2000 and 32 in FY 2000-01) rather than projecting the time study results to the audit period. In some instances, the classifications of employees sampled during the time-study period were different during the audit period. No analysis was made for the costs of the employees not sampled.
- The district did not substantiate that the level of effort spent by OSR and OSR-related staff during the time-study period correlated to the level of effort spent during the audit period. Consequently, the auditors are unable to determine whether the time study results can be reasonably projected to the audit period.

As discussed above, the district's application of the October 2001 through March 2002 time-study was not valid. In reviewing the application of the time study results to the audit period, the SCO auditors noted the following:

FY 1999-2000

For salaries and benefits, the district claimed \$2,368,408 in OSR staff and \$18,459 in OSR-related staff for labor relations activities, totaling \$2,386,867. The time study does not support the costs claimed for the OSR or OSR-related staff.

The time study was applied to 16 of the OSR staff members for which the district claimed between 95% and 100% of their time, totaling \$1,413,463. However, the time study disclosed that only 48% to 94% of the time, totaling \$1,106,171, related to the mandate, a 22% variance in costs. No analysis was made for the costs of the remaining 12 OSR staff members, totaling \$954,945.

In addition, for FY 1999-2000, the time study was applied to six of the OSR-related staff members for which the district claimed between 0.04% and 6.16% of their time, totaling \$6,212. However, the time study disclosed that 26% to 96% of their time, totaling \$373,467, related to the mandate, a 5,912% variance in costs. Three of the six staff members were the elementary principal, the coordinator of the administrative office, or the principal secretary during FY 1999-2000, but were listed as coordinator staff during the time-study period. Consequently, the application of the time-studied percentages is not valid. An analysis was not made for the costs of the remaining OSR-related staff, totaling \$12,247.

FY 2000-01

For salaries and benefits, the district claimed \$1,995,620 in OSR staff and \$137,820 in non-OSR staff for labor relation activities, totaling \$2,133,440. Comparison of the costs claimed for the sampled OSR staff disclosed that the projected time study costs were in excess of claimed costs. No analysis was performed on the OSR-related costs.

The time study was applied to 32 of the OSR staff members for which the district claimed between 21.78% and 99.67% of their time, totaling \$1,777,982. However, the time study disclosed that 25.55% to 96.29% of their time, totaling \$2,000,215, related to the mandate, a 12% variance in costs. No analysis was made for the costs of the remaining six OSR staff members, totaling \$217,638.

In addition, for FY 2000-01, the time study was not applied to any of the 27 OSR-related staff members for which the district claimed \$137,820.

In Attachment II to the district's response to the draft report (included in the Attachment to this report), the district identified the auditor's concern and gave reasons why the SCO's analysis of the district's time study was incorrect. The following are the SCO's comments on the district's

response, presented in the same order as presented by the district.

1. The district did not provide documentation to support that the level of its staff efforts between the time study period and the audit period was consistent. Generally, employer and employee bargaining groups negotiate on their contracts at certain intervals (e.g., every two years) and the level of effort spent on grievance-related issues may vary from year to year.
2. The SCO agrees that it is not necessary to have a correlation between employees within the same classification when performing a time study.
3. The SCO informed the district of the variations between the hours reported for individuals in the time study and the payroll record. The SCO requested that the district explain why the hours in the time study did not agree with the payroll records. However, the district did not address these concerns.
4. The SCO agrees that not all classified employees are exempt from compensation for hours of work in excess of their regularly scheduled work hours. The SCO review revealed that the district's payroll records, for all of the classified employees claimed on the mandate, did not reflect any hours in excess of the regularly scheduled hours.
5. The district disagrees that of the 34 employees that participated in the time study, 7 did not have time logs for the entire six-month period. A total of 196, not 198 logs as suggested by the district, were provided for review. Time spent for each of the months in the time study period varied; therefore, submitting time records for the entire study period is relevant.
6. In one instance, an employee had turned in another employee's time log. The district stated that the auditors imply that the log is fraudulent. However, at no time did the auditors determine that the log is fraudulent. Instead, the auditors indicated that this was an instance in which established district procedures were not followed.
7. The district argues that three employees completed their logs on the computer, but did not sign the logs. The district stated that if the auditors asked the employees to review the form and sign it, this item would have been cleared. As noted above, this issue relates to instances in which established district procedures were not followed.
8. The district argues that the worksheet sent to the SCO contains relevant data to support the time study. As discussed above, the district did not respond to the auditor's concerns as to: (1) the validity of the completed FY 2001-02 time study; (2) the projection of the time study results to the audit period; and (3) the applicability of the time study results to the audit period.

9. The district provided a summary of collective bargaining time study showing a net overstatement of 3.91% for FY 1999-2000 and understatement of 2.88 % in FY 2000-01. However, the district compared the costs of 34 of the 52 sampled employees from the time study to amounts claimed for those individuals (22 in FY 1999-2000 and 32 in FY 2000-01) rather than projecting the time study results to the audit period. In some instances, the classifications of employees sampled during the time-study period were different during the audit period. No analysis was made for the costs of the employees not sampled. Furthermore, the district did not substantiate that the level of effort spent by OSR and OSR-related staff during the time-study period correlated to the level of effort spent during the audit period. Consequently, the auditors are unable to determine whether the time study results can be reasonably projected to the audit period.

Administrator Meetings

The district states that it will not contest this finding if the document did not support the mandate-related activities. The district has not provided documentation to support that claimed costs were for mandate-related activities.

Principals Attending Monthly Update Meetings

The district states that the time claimed was for contract training provided by the district's OSR staff. However, the district's records revealed that the meetings were an administrators meeting and that one of the speakers was from the district's OSR office. The topic of discussion for the OSR speaker was Staff Relations Update. The district has not provided any documentation to support its claim that the time spent was for contract training. *Parameters and Guidelines*, Section G 6, states that personal development and informational programs, such as classes, conferences, seminars, workshops, and time spent by employees attending such meetings are not reimbursable.

FINDING 2— Unsupported materials and supplies

The district did not provide documentation to support claimed materials and supplies totaling \$153,894 for the period of July 1, 1999, through June 30, 2001, as follows:

- The district claimed \$66,607 (\$51,973 in FY 1999-2000 and \$14,634 in FY 2000-01) with no supporting documentation.
- The district claimed \$1,673 (\$821 in FY 1999-2000 and \$852 in FY 2000-01) in costs that are not directly related to collective bargaining activities (e.g., costs of magazine subscriptions, lunch expenses, and returned merchandise).
- The district claimed \$85,614 (\$52,964 in FY 1999-2000 and \$32,650 in FY 2000-01) in supplies for the entire OSR staff. Only a portion of costs incurred should have been claimed (see Finding 1).

A summary of the unallowable costs is as follows:

	Fiscal Year		Total
	1999-2000	2000-01	
Materials and supplies:			
Components G1 through G3	\$ (105,758)	\$ (48,136)	\$ (153,894)

Parameters and Guidelines states that seminars, workshops, and time spent by employees attending such meetings are not reimbursable. Similarly, purchases of books and subscriptions for personal development and information purposes are not reimbursable.

Parameters and Guidelines, Section H 4, states that only an expenditure which can be identified as a direct cost as a result of the mandate can be claimed.

Recommendation

The district should develop and implement an adequate recording and reporting system to ensure that all claimed costs are eligible and properly supported.

District's Response

The District disagrees with the total amount identified by the SCO auditor. The District has presented appropriate documentation to support the claimed materials and supplies. However, we will not contest any materials and supplies that are not eligible components of this mandate.

There is no information from the SCO audit staff to determine what supporting documentation was not provided. All expenses are documented and paid according to the internal accounting controls established by the District.

The SCO auditor has claimed that \$85,614 in supplies for the entire OSR staff is not adequately supported. A statement by the SCO auditor then identifies that a portion of costs incurred should have been claimed but does not specify the amount. In reference to Finding 1, it is not clear as to what amount should have been claimed.

SCO's Comment

This finding remains unchanged.

The district did not provide any documentation supporting \$66,607 claimed for materials and supplies. The \$1,673 claimed by the district relates to activities outside the scope of the mandate. The \$85,614 claimed by the district relates to supplies for the entire OSR staff that was traceable to supporting documentation. However, the entire cost is unallowable because the district was unable to support the portion of OSR costs that relate to the Collective Bargaining Program (see Finding 1).

**FINDING 3—
Unsupported contract
services**

The district overclaimed \$30,270 in contract services for the period of July 1, 1999, through June 30, 2001, as follows:

- The district claimed 100% of arbitrator's fees totaling \$8,252 (\$8,002 in FY 1999-2000 and \$250 in FY 2000-01). However, only 50% of arbitrator's fees are reimbursable under the Collective Bargaining Program.
- The district claimed \$17,728 (\$16,939 in FY 1999-2000 and \$789 in FY 2000-01) for contract services exceeding actual costs incurred. The district overstated the number of hours charged by the district's consultants on their invoices.
- The district claimed \$3,330 twice and claimed \$960 with no supporting documents in FY 1999-2000.

A summary of the unallowable costs is as follows:

	Fiscal Year		Total
	1999-2000	2000-01	
Contract services:			
Components G1 through G3	\$ (16,048)	\$ (538)	\$ (16,586)
Components G4 through G7	(13,183)	(501)	(13,684)
Totals	<u>\$ (29,231)</u>	<u>\$ (1,039)</u>	<u>\$ (30,270)</u>

Parameters and Guidelines states that the employer's portion of arbitrator's fees for adjudicating grievances representing 50% of costs will be reimbursed under the mandate.

Parameters and Guidelines, Section H 5, requires that the district separately show the name of professionals or consultants, and specify the functions the consultants performed relative to the mandate, length of appointment, and the itemized costs for such services. Invoices must be submitted as supporting documentation with the claim.

Recommendation

The district should develop and implement an adequate recording and reporting system to ensure that all claimed costs are eligible and properly supported.

District's Response

The District paid the invoice amount. The arbitrator knows to include only 50% of the total amount to the District. There is no indication on the invoice of the arbitrator that the amount was for 100%.

The District will not contest any duplications, contract services exceeding actual costs incurred or claims with no supporting documentation.

SCO's Comment

The finding remains unchanged.

For the arbitrator's fee, the district argues that it paid the invoice amount and that the arbitrator knows to include only 50% of the total amount to the district. The district provided invoices from its arbitrators as evidence of total time spent for rendering its service as an arbitrator. The district did not provide documentation that would indicate that the arbitrator billed the district for 50% of the total cost.

The district neither agreed nor disagreed with the remainder of the costs determined to be unallowable.

**FINDING 4—
Overstated indirect
costs**

The district overstated indirect costs by \$173,547 because of the unallowable costs identified in Findings 1 and 2 as follows:

	Fiscal Year		Total
	1999-2000	2000-01	
Allowable increased direct costs:			
Salaries and benefits (Schedule 1)	\$ 111,884	\$ 272,076	
Materials and supplies	—	—	
Subtotals	111,884	272,076	
Indirect cost rate claimed	4.81%	4.22%	
Allowable indirect costs	5,382	11,482	\$ 16,864
Less claimed indirect costs	(104,190)	(86,221)	(190,411)
Totals	<u>\$ (98,808)</u>	<u>\$ (74,739)</u>	<u>\$ (173,547)</u>

Parameters and Guidelines, Section H, states the claimant must support the level of costs claimed and that the claimant will only be reimbursed for the "increased costs" incurred.

Recommendation

The district should develop and implement an adequate recording and reporting system to ensure that all claimed costs are eligible and properly supported.

District's Response

The District does not agree with this finding since the amount is calculated based on adjustments for salaries and benefits and for material and supplies from Finding 1 and 2.

SCO's Comment

The finding remains unchanged.

The adjustment for salaries and benefits is based on the adjustments made in Findings 1 and 2, which have not changed since the issuance of the draft report.

**Attachment—
District's Response to
Draft Audit Report**

Los Angeles Unified School District

Accounting and Disbursements Division

ROY ROMER
Superintendent of Schools

TIMOTHY B. BURESH
Chief Operating Officer

DR. JOSEPH P. ZERONIAN
Chief Financial Officer

YOSHIKO FONG
Controller

June 3, 2003

Jim L. Spano, Chief
Compliance Audit Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

Re: Response to Draft Audit Report (Collective Bargaining Program FY 1999-2001)

Dear Mr. Spano:

We have received the draft report of your audit on claims filed by the Los Angeles Unified School District (District) relating to the mandated Collective Bargaining Program for the period of July 1, 1999 through June 30, 2001.

The audit report shows a disallowance of \$4,378,485 out of a total claim of \$5,083,438. This disallowance is based on four audit findings. (See Attachment I and II for details.)

1) Unsupported salaries and benefits costs	\$4,423,449
2) Unsupported materials and supplies costs	\$153,894
3) Unsupported contract service costs	\$30,270
4) Overstated indirect costs	<u>\$173,547</u>
Sub-Total	<u>\$4,781,160</u>
Adjustment to Reduce Balance to Zero	<u>(\$ 402,675)</u>
Total Adjustment	<u>\$4,378,485</u>

The District is not in agreement with how this audit was conducted or the reasons given for not validating the time study. It is a known fact that time study guidelines are a major problem currently under review by the State Controllers' Office (SCO).

We request a meeting with senior members of the SCO staff to resolve this time study issue. If this request is denied we reserve the right to file an Incorrect Reduction Claim with the Commission on State Mandates for this program adjustment, within the statutory three-year period from the date of this final audit report.

Mr. Jim Spano
June 3, 2003

We appreciate your giving us the opportunity to respond to this draft audit report. If you need additional information, please call Yoshiko Fong, Controller, at (213) 241-7889 or Eileen Okazaki, Director of Accounting, at (213) 241-3188.

Sincerely,



Joseph P. Zeronian
Chief Financial Officer

c: Yoshiko Fong
Eileen Okazaki
Chris Prasad, SCO
John Conshafter, MCS education services

Attachment I
Audit Findings and Responses

Finding 1 - Unsupported salaries and benefits costs for a total of \$4,423,449.

Response - The District disagrees with the calculation and the reason for the adjustment by the SCO audit staff. The District takes exception to the reasons given by the auditor for not validating the time study that was presented to them. The District addressed the auditors concerns with the presentation of a very detailed worksheet with notes and comments at the end of each worksheet. The SCO failed to act on the information presented. The District also requested to meet with the SCO concerning this time study analysis prepared by our consulting group. The analysis was compared with actual payroll data and was projected for comparison with the claimed amounts. (See Attachment II – Time Study for details.)

The District is in disagreement with the SCO with regard to the time spent training principals. At a principal meeting, the coordinator (OSR) provides contract training. The coordinator will review sections of the contract that are important. They also review sections of the contract that are calendar sensitive and remind principals that they must adhere to the contract. Any other questions that principals may have specific to their schools regarding the contract are also asked and answered at the meetings.

The District will not contest the \$6,846 if the documentation did not support mandate-related activities.

Finding 2 – Unsupported materials and supplies costs for a total of \$153,894.

Response - The District disagrees with the total amount identified by the SCO auditor. The District has presented appropriate documentation to support the claimed materials and supplies. However, we will not contest any materials and supplies that are not eligible components of this mandate.

There is no information from the SCO audit staff to determine what supporting documentation was not provided. All expenses are documented and paid according to the internal accounting controls established by the District.

The SCO auditor has claimed that \$85,614 in supplies for the entire OSR staff is not adequately supported. A statement by the SCO auditor then identifies that a portion of costs incurred should have been claimed but does not specify the amount. In reference to Finding 1, it is not clear as to what amount should have been claimed.

Finding 3 – Unsupported contract service costs of \$30,270.

Response - The District paid the invoice amount. The arbitrator knows to include only 50% of the total amount to the District. There is no indication on the invoice of the arbitrator that the amount was for 100%.

The District will not contest any duplications, contract services exceeding actual costs incurred or claims with no supporting documentation.

Finding 4 – Overstated indirect costs of \$173,547.

Response - The District does not agree with this finding since the amount is calculated based on adjustments for salaries and benefits and for material and supplies from Finding 1 and 2.

Attachment II – Time Study

The auditor stated the time study was determined to be invalid for three reasons.

1. The District did not respond to the auditors' concerns as to the validity of the completed time study.
2. The District did not project the time study results to the audit period.
3. The District did not support the applicability of applying the result of the time study conducted in FY 2001-02 to the audit period of FY 1999-2000 and FY 2000-01.

The reasons given are totally incorrect. The District has responded in detail to the SCO audit staff and will explain in detail the information that has not been presented by the auditor regarding this time study.

On February 10, 2000, in a status meeting between the SCO and the District regarding the collective bargaining claim, the auditor explained that for the following reasons the time study would not be allowed.

The time study performed by 34 OSR (Office of Staff Relations) staff from October 2001 through March 2002 does not appear to be applicable to the audit period. SCO review of payroll records revealed that:

- **Finding:** Time expended during the current year for collective bargaining activities may not be representative of activities incurred during the audit period. No evidence has been provided to show that activities between current year and prior years were consistent.

Response: The District had 34 of 52 individuals (65%) participating in this time study for a period of six months. We believe that the study is representative of the activities incurred during the audit period not only because of the number of participants, but also by the length of the time study. If the same job is consistently done year after year, then the District may claim that there is consistency in the two years being reviewed.

Participation Statistics:

Participants	34	65%
Non Participants	18	35%
Total	52	100%

- **Finding:** The approach applied to the time study does not appear to be reasonable. There is no correlation between employees within the same classification. Two office assistants recorded 30% and 71% of the time spent in mandate activities.

Response: We believe that it is not necessary to have a correlation between employees within the same classification. It is unrealistic for the auditor to think that such a correlation is relative to a time study validation. We have not seen guidelines that require that a time study must determine a correlation between employees within the same classification. There could be many job functions within the same job classification.

Title Distribution by Employees

Admin Secretary	2	5.88%
Coordinators	13	38.24%
Clerk	1	2.94%
Labor Relations Rep.	2	5.88%
Office Assistant	3	8.82%
Pers Analysis	1	2.94%
Pers Office	1	2.94%
Pers Representative	1	2.94%
Principal Elementary	1	2.94%
Principal Secretary	1	2.94%
Secretary	1	2.94%
SR Office	4	11.76%
SR Steno	3	8.82%
Total	34	100%

- **Finding:** At the time of the status report of February 10, 2003, the District payroll record was not supported in the time study. Twenty-three out of 34 (67%) employees did not report vacations and/or illness hours.

Response: This is not a correct statement. There may have been 23 of 34 employees that have minor adjustment to the benefit hours reported in the payroll record on the time study, but it is immaterial in scope and may have been due to the auditor not understanding the payroll code being used. The time study is not an official payment record and could have minor adjustments.

- **Finding:** Classified employees recorded hours in excess of 8 hours on several days. Classified employees are exempt employees. Exempt employees do not receive extra payment for working overtime. Since the district did not incur increased costs, employee's daily hours in excess of 8 hours should not be reimbursable.

Response: This is an incorrect statement. Not all Classified employees are exempt. There are non-exempt classified employees that do work more than 8 hours and do get paid for working overtime. The detailed payroll records provided to the auditor identified that overtime was paid to classified employees. The district did incur additional cost.

- **Finding:** Seven employees did not turn in activity logs for the entire six months period.

Response: This is an incorrect statement. There were five individuals out of 34 that did not turn in the entire six months. Four employees missed 1 month and 1 employee missed 2 months. Out of 204 months possible in this time study there were 198 months represented for a percentage of 97%. That is definitely a reasonable percentage of participation. The table below summarizes the logs.

Sixth Month Time Study

	Number	Months	Percentage
6 Months Completed	29	174	85%
5 Months Completed	4	20	12%
4 Months Completed	1	4	3%
Total	34	198	100%

- **Finding:** One district employee turned in logs completed by another employee.

Response: According to the way the statement is written, it implies that the log is fraudulent. Actually, the employee had the assistant inputting the data for the log and then signed the document. It is not unusual for an assistant to transcribe the data onto the form for the supervisor to sign. The auditor apparently did not use reasonableness in reviewing documentation, or ask questions of the District before including this item as a finding.

- **Finding:** Three employees did not sign their activity logs. The SCO cannot determine whether the employees completed the activity logs themselves.

Response: The employees in question completed their logs on the computer and did not sign the forms. The names, dates, hours were included on the worksheets. If the auditor had asked the employees to review the form and then sign them this would have been cleared.

At the February 10, 2003 status meeting, the District also agreed to have the time study data reviewed and sent to the SCO office in worksheet format. The worksheet was completed and sent to the SCO.

The worksheet sent to the SCO contained the following data:

- Employee Number
- Employee Name
- Months Completed (time study months)
- Site (where employee worked)
- Title (job description title)
- Type (classified or certificated)
- 1999-2000 and 2000-2001 Contract Hours
- 1999-2000 and 2000-2001 Salary plus benefits
- 1999-2000 and 2000-2001 Hourly Rate
- Time Study Results
 - Payroll Hours
 - % Claimed – Percentage to Payroll Hours Paid 62.69%
 - Payroll Hours Paid with Benefits 34,198.3 hrs
 - Payroll Hours less Benefits
 - % Claimed – Percent to Payroll Hours less benefit hours 75.72%
 - Payroll Hours Paid without benefit hours. 28,309.8 hrs
 - Total Hours Worked
 - % Claimed – Percentage to Total Hours Worked 70.59%
 - Hours NOT Claimable for Total Hours Worked 8,953.6 hrs
 - Hours Claimable for Total Hours Worked 21,437.4 hrs
 - Hours Worked plus Benefits
 - Total Hours Worked 30,369.2 hrs
 - Benefit Hours 5,888.5 hrs
 - Total Hours Worked plus Benefits 36,257.7 hrs

In addition to the above data there was also supporting data with the worksheet identifying participation statistics, employee completion of months in the time study, title distribution of employees who participated in the time study and statistics for signing of the time study logs. There were also District responses to the SCO in support of the time study and column explanations.

The information below is a summary of the amounts claimed and the time study data. The objective was to determine the reasonableness of the percentages used for the collective bargaining claim. This information was available to the SCO.

**Los Angeles USD – Collective Bargaining Summary Sheet for the Claim Years
1999-2000 and 2000-2001**

Summary for Collective Bargaining Time Study

Total Hours Worked	30,369.2
Hours Claimable to Total Hours Worked	21,437.7
Percentage to Total Hours Worked	70.59% (21,437.7/30,369.2=70.59%)

Fiscal Year 1999-2000

Amount Claimed	\$1,419,674.78
Salary Calculation Worksheets	\$1,905,609.83
Percentage to Salary Calculation Worksheet	74.50% (1419674.78/1905609.83=74.50%)
Less Time Study Percentage	70.59%
Difference (overstated)	3.91%

Fiscal Year 2000-2001

Amount Claimed	\$1,777,981.52
Salary Calculation Worksheet	\$2,626,014.49
Percentage to Salary Calculation Worksheet	67.71%
Less Time Study Percentage	70.59%
Difference (understated)	(2.88%)

Net Difference for Two Years per Time Study	1.03% Overstated
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Conclusion:

The projected time study results were available to the auditors. The results of the projection show that the time study identified a net overstated difference of only 1.03% for the claims issued. This validates the time study and substantiates that the collective bargaining claims are reasonable. It is quite obvious that the stated reasons by the SCO as to why the time study is not valid are circumstantial and immaterial.

**State Controller's Office
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<http://www.sco.ca.gov>